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# TAXATION OF REAL ESTATE VALUES AND ITS EFFECT ON HOUSING

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The single-taxers maintain that if all public revenues were raised by a tax upon the rental value of land, excluding improvements, the effect would be to stimulate building by forcing unoccupied land, favorably situated, into its most profitable use. They say that the single tax would put an end to the holding of vacant land for speculative increases in value, as no one could afford to pay a heavy tax on land from which he was getting no revenue, especially as the tax would increase from year to year with the appreciation of the site value of the land, and wholly irrespective of the owner's expenditures for improvements.

It appears that, if this theory is correct, the single-tax on land values would result in the building of a compact city around the business center in every case where the topography would permit nearness to constitute desirability of location. Inasmuch, however, as there are few city sites where nearness to the business center is the only element to be considered in determining desirability, the expected result of the single-tax upon city building may be more accurately stated as the development of a compact city along the topographical lines of least resistance around the business center. In other words, the city would be compact in its various parts, though it would not be symmetrical unless topography invited symmetry.

It is obvious that any force tending to close the open spaces and make a city compactly built must have a fundamental effect on housing. Apparently, the adoption of the single-tax would throw upon the community as an organized unit of self-government the entire responsibility for the reservation of open spaces for all purposes. The natural tendency, so far as the private holder of land was concerned, would be to build as intensively as possible on the site controlled by him. Without a city plan and governmental intervention, this would mean high buildings, buildings covering the entire ground space, no parks or open squares and streets narrowed

down toward the vanishing point. Obviously, these tendencies, if unchecked, would bring about the worst possible housing conditions.

It is urged, however, that these tendencies toward congestion would be checked by competition in building. Over-improvement would tend to destroy, or at least diminish, natural site values and bring into use sites farther out from the business center or otherwise less favorably situated. Thus the single-tax policy, unaccompanied by public regulation, would invite what from the housing standpoint must be considered bad building, but lots of it, and so everybody could have a big house, but it would be a poor one. A man's home would be all inside and no outside. There would doubtless be some reaction in favor of better houses and the restoration of rental values destroyed by over-improvement, but this reaction would have the usual force of hindsight. Houses are used as they are built, especially in large urban communities, and it takes a very considerable amount of hindsight to correct a mistake in building which a very little foresight would have prevented. In other words, it is true in housing as in other matters, that an ounce of prevention is worth a pound of cure.

It will take something more than taxation to handle the housing problem. This should not be considered as an adverse criticism upon the single-tax program, because, so far as the writer knows, no responsible single-taxer would for a moment urge the adoption of his tax plan without governmental regulation to supplement it. In fact, under any conceivable system of taxation, some sort of a city plan and some scheme of direct limitation upon or regulation of private activity in the improvement of land are necessary. Even in the heedless times during which American cities have been born and "come up," there has always been some city planning. The poor child has always had some clothes and has received from time to time at least a few educational cuffs. But with the proposed adoption of the single tax as a social program, necessarily goes a comprehensive scheme of city planning and community regulation. This much may be taken for granted.

It should not be forgotten that taxation is only one of many factors in the housing problem. In this discussion we are trying to isolate this one factor and study its results. The logical effects we discover in a theoretical discussion are likely to turn out to be mere tendencies and, in actual practice may, indeed, disappear from view

entirely, having been overcome or neutralized by other tendencies arising from other factors of the problem. With this point in view, perhaps we may safely say that the tendency of the single tax on land values as a separate factor in the problem under discussion would be to increase the quantity of available housing but to make its quality in relation to the outdoor world worse.

The tendency of the single-tax to affect housing doubtless would vary with the relative quantity of the tax. If only a small portion of the rental value of land were to be taken in taxes, the effect would be relatively slight, while the taking of the entire rental value in taxation would accentuate to the utmost the tendency described.

Certain approximations of the single-tax are now being urged in various quarters, either for the purpose of increasing public revenues or as part of a program of civic improvement or of economic justice. Their advocates sometimes claim for them marked effects upon the housing problem. In particular, a campaign is now being carried on in New York City for the halving of the tax rate on buildings. The scheme is gradually to reduce the rate on improvements until it is only half the rate on land values. It is obvious that unless public revenues are to be reduced the process of pushing down the tax rate on buildings will automatically result in the raising of the rate on land values. While the proposition now pending in New York looks no further than the relative halving of the rate on buildings, it would appear that the logical outcome would be the ultimate exemption of buildings from all taxation whatever. This scheme, if carried to its logical end, differs from the single-tax only in that it does not forbid the raising of revenue by other means than the tax on real estate.

In this New York campaign for tax reform great emphasis is being laid upon the alleged social benefits that would accrue from the reduction of the tax rate on buildings. Specifically, it is claimed that it would result in the lowering of rents. This would be brought about by the stimulation of new construction. It is estimated that about twenty million dollars a year would be shifted directly from the backs of the tenants to the backs of the landlords, and the enthusiastic advocates of the scheme allege that this sum of twenty millions is only a fraction of the total financial benefit to accrue to the working class if the scheme is carried out. Evidently, if the results anticipated by the advocates of the scheme are really to be expected, the

tendencies of the plan would be the same as those of the single-tax except for differences in degree. Anything that reduces rents affects housing directly or indirectly. Either the quantity of available housing is increased or the financial ability of the tenants to demand better housing is raised.

In this connection it is to be noted that a house is rather inelastic. If the number of houses or apartments relative to the number of families needing them is increased, rents will be lowered by the competition of vacant apartments for tenants. Except in relatively few cases, two or more families do not live together in a single house or apartment in order to dodge the effects of high rents, and in still fewer cases would a single family spread out to occupy more than one house or apartment as a result of lower rents. As a general rule, a house or apartment continues as it is built, and, if occupied at all, is occupied by a single family group, whether rents are high or low. The chief exception to this rule is in the taking of boarders, who in most cases are single men or women and would not occupy houses or apartments by themselves anyway.

The process of readjusting and enlarging existing apartments to suit the expanded tastes and financial abilities of tenants is difficult, expensive and slow. If a family in a crowded city desires and can afford better quarters, the usual process is for the family to move out and find other quarters originally constructed on a more liberal scale. This moving out, whether a cause of lower rents in the abandoned location or a result of better accommodations for the same or lower rents in the new location, does not change the house or apartment from which the family moves. It simply leaves a social cell vacant. It does not improve the cell, or give the families occupying the neighboring cells any more room or any better accommodations, within their homes. Of course the yards, the streets and the neighboring parks and playgrounds are less crowded.

If there were no influx or increase of population to occupy the vacant places, there would be not only an immediate lowering of rents as a result of competition for tenants, but also a gradual readjustment or reconstruction that would ultimately eliminate the surplus apartments. This readjustment would necessarily be slow because of its expensiveness. Naturally, an owner will accept lower rents for quite a while before going to the expense of rebuilding the house. Indeed, the immediate effect of lower rents and decreasing

values in many cases will be a curtailment of improvements. A landlord, though urged by competition to improve his houses in order to hold his tenants, will also be urged not to improve them where values are falling and the prospects of future profits are not bright.

A close consideration of the scheme for reducing the tax rate on buildings as proposed in New York shows a probable effect much less important than is anticipated by its advocates. From the preceding discussion it is clear that if rents are lowered through the competition of vacant apartments, the inevitable result will be a shrinkage in the value of the land. The houses will not be worth less. If anything, they will be worth more, for the stimulation of building will naturally result in a greater absolute or relative scarcity of building materials and consequent higher prices. And so land values will be diminished while building values are increased. While so great a change in relative values as completely to offset the change in the relative rates in taxation does not seem probable, the tendency undoubtedly would be in that direction. This fact calls attention to a certain flaw in the scheme that would tend to make its results disappointing from the standpoint of its hopeful supporters. If the plan were to limit the relative amount of taxes to be levied on buildings as compared with land values rather than the relative rate of taxation, the forecast of results would be much more dependable.

In any case, as with the single-tax itself, satisfactory results from the housing standpoint cannot be expected, unless the tax scheme is supplemented by a comprehensive city plan and drastic public regulation of housing construction.

Another approximation of the single tax sometimes advocated is the extra tax on future increments of land values. This scheme is brought forward as supplying an additional source of revenue and is justified by its advocates by the usual arguments advanced by single-taxers and admitted by many as sound under ideal conditions but impracticable in the presence of existing vested interests in land values. While an additional rate of taxation as applied to future increases in land values, if the addition were considerable, would doubtless tend to check land speculation and mildly stimulate the profitable use of land, its effect upon housing would not be different in kind and would probably be less in degree than the effect of the taxation schemes already considered. An increment tax that would

take a part of the increase in land values in a lump sum either at stated intervals or as an incident to the transfer of title to the land would be like a special assessment for benefits, except that no question would be raised or proof required as to the source or cause of the increase in value. It is reasonable to believe that special assessments, if levied without reference to improvements on the land benefited, do, and that the kind of an increment tax just described would, tend to curtail land speculation and encourage building.

If we turn to the other extreme, and ask what the effect of the exemption of land values from taxation and the levying of a heavy tax on buildings would be, it is reasonably clear that building would be discouraged. If the building tax were levied on values, every effort would be made by builders to curtail cost and postpone or entirely avoid improvements. The quantity of housing might not be so much affected as its quality. The type of congestion encouraged, by such a scheme of taxation, would not be the New York, tall-tenement type, but a squalid low-house type more like that prevailing in London. It is clear that such a plan of taxation would be effective in preventing the intensive improvement of land. It would be a sort of automatic check upon the height and cost of buildings. The only kind of city planning that would be effective, so far as housing is concerned, under such conditions, would take the form of direct governmental or philanthropic investments in model tenements. Private enterprise would need to be supplemented and stimulated, instead of being repressed and regulated. But, at least so far as America is concerned, this phase of the discussion is quite academic, as no one proposes an increase in the rate or amount of taxation on buildings as compared with land itself.

We must still consider the housing effects of the real estate tax as commonly known in American cities. While we have had ample experience with this tax, the discussion of its effects is more or less speculative, because we have always had it and have never had much else to compare it with. If a single tax on land would encourage building and a single-tax on improvements would discourage building, what are we to say as to the effect of a tax that falls equally on both? Assuming that the assessors arrive at the same percentage of true value in assessing both land and buildings, a uniform tax rate on all real estate would apparently neutralize the effect of the building tax and the land tax so far as housing is concerned. Indeed it

is hard to see how variations in the rate of taxation, from low taxes to high taxes, so long as the rate applies equally to land and building values, assessed equitably, can have much direct effect upon either the quantity or the quality of housing relative to the population of a given community. High taxes, if they mean extravagance and waste, or low taxes, if they mean neglect and stagnation, may check the growth of a city. It may be so expensive or so inconvenient to live or do business there that population and industries will not come into being or will go elsewhere. It may be that taxes equitably levied and wisely spent will increase the prosperity of a city by improving the condition of its citizens or by attracting additional population, or by both. If the condition of the people is improved the quality of their housing will gradually improve to meet the effective demand. If the number of the people is increased the quantity of housing will increase. If the condition of the people is improved, and their number increased, the quality of housing will improve and its quantity increase. If the condition of the people grows worse while their number increases, there will be poorer housing but more of it in total quantity.

In conclusion, it appears to the writer that desirable housing reform cannot be brought about by new schemes of taxation alone. Taxation of land values may be used to stimulate, within certain limits, the building of houses, but whether this stimulation will have good or bad results will depend on the wisdom and effectiveness of city planning and direct and indirect community regulation. It may be possible to make a horse go by striking him with a whip, but unless you have something for him to pull, a place for him to pull it to and some way of guiding him, what is the use of laying on the gad?